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SUBJECT: Argentina: Economy Minister Fernandez on Economic Impact of
Agricultural Strike

Ref: (A) Buenos Aires 0974
(B) Buenos Aires 610
(C) Buenos Aires 831
(D) Buenos Aires 842

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Summary

¶1. (SBU) GoA Economy Minister Fernandez, in a meeting with WHA Assistant Secretary Shannon, Treasury DAS O'Neill, and Ambassador, emphasized the "legitimate right" of President Cristina Fernandez de Kirchner to unilaterally impose variable export tariffs on agricultural commodities, but argued that her June decision to request parliamentary approval for these taxes has since helped inform and "order" public debate on the issue. Fernandez acknowledged that uncertainties generated by the extended conflict had impacted domestic financial markets, with recent evidence of deposit withdrawals and capital flight. But Argentina's current economic situation is far stronger than it was in past crises, he argued, with almost \$50 billion in reserves and twin fiscal and trade surpluses providing the economy a solid "structural" foundation. Fernandez called the GoA's fiscal situation through June 2008 "good", notwithstanding the fact that revenues fell short of projections due to the agricultural sector holding back on taxable exports. Fernandez called the GoA's pending announcement of "Bicentennial" projects and reforms still undefined due to the GoA's preoccupation with the agricultural sector conflict agenda but he indicated that the GoA was working on a number of initiatives aimed at boosting consumer income. He called generating additional auto domestic sector production a GoA priority to generate jobs and reduce the bilateral trade deficit with Brazil. Fernandez noted his earlier meeting with Treasury DAS O'Neill at the June regional finance ministers meeting in Cancun and said he plans to attend the October Bank/Fund annual meeting in Washington. End Summary

Cancun Regional Finance Ministers Meeting

¶2. (U) Assistant Secretary Thomas Shannon, Treasury Deputy Assistant Secretary Brian O'Neill, and Ambassador met Friday morning, July 11 with Economy Minister Carlos Fernandez prior to the second round of USG/GoA bilateral discussions (Ref A). Also attending were Vice Foreign Minister Taccetti, Argentine Ambassador to the U.S. Hector Timerman, and GoA Finance Secretary Hernan Lorenzino.

¶3. (SBU) Treasury's O'Neill noted his recent meeting with Minister Fernandez at the June 2008 gathering of regional Finance Ministers in Cancun, Mexico. Fernandez said he appreciated the meeting's

unscripted format and its ban on press, which he said allowed for frank discussions of the impact of high food and hydrocarbon commodity prices on the global economy as well as on the impact of current U.S. economic weakness on the hemisphere's linked economies.

He called the interventions of the IMF, World Bank and IDB particularly helpful in reviewing both issues. Argentina, Fernandez said, used the opportunity to outline the GoA's program of expanded investment in public infrastructure.

¶4. (SBU) O'Neill noted that, while all attending ministers discussed the potential fallout of U.S. economic turmoil on their own economies, their key concern was the commodity price-linked increase in domestic inflation rather than the potential for U.S. economy contagion. Aside from Canada, which has been most affected by reduced U.S. demand for autos and wood products, O'Neill noted that hemispheric economies have broadly weathered the U.S. downturn. He added that in Latin America the Caribbean and Central American economies -- net food and energy importers -- were the most vulnerable. Fernandez agreed, noting that net food and energy importing nations in the hemisphere had been "violently impacted" by the run-up on global agricultural commodity prices. Countries like Argentina, which are largely self sufficient in food and energy, "remain on alert" as global markets absorb the significant shift in terms of trade.

¶5. (SBU) O'Neill noted that Chile had offered to host next year's regional finance ministers meeting and that, in the interim, he looked forward to seeing Minister Fernandez at the upcoming IMF/World Bank annual meeting in Washington in October.

Impact of Agricultural Conflict on Domestic Economy

¶6. (SBU) In response to O'Neill's question on the economic impact of the extended GoA confrontation with the agricultural sector over its November 2007 increase in agricultural export tariffs, Fernandez said that the conflict has unfolded in the context of a "complex politico-economic scenario" in which "false arguments" have muddled the debate and in which fundamental economic issues have been "discussed badly." Both Fernandez and Timerman emphasized the "legitimate right" of the executive to impose variable export tariffs. (There is a pending constitutional challenge in the Supreme Court to the Executive's right to impose such high export taxes without Congressional assent). Nevertheless, Fernandez said that President Kirchner's June decision to request parliamentary approval has since helped inform and "order" public debate. "We are a democracy, after all," he concluded.

¶7. (SBU) Fernandez acknowledged that uncertainties generated by the extended conflict had impacted domestic financial markets. He called recent evidence of deposit withdrawals and capital flight the response of an Argentine public long sensitized to uncertainty by Argentina's volatile economic track record. But Argentina's current economic situation is far stronger than it was in past crises, he argued, with almost \$50 billion in reserves and twin fiscal and trade surpluses providing the economy a solid "structural" foundation. Fernandez called the GoA's fiscal situation through June 2008 "good," notwithstanding the fact that revenues fell short of projections due to the agricultural sector holding back on taxable exports. "We will have to calibrate our [agricultural sector] agenda going forward," Fernandez concluded, "and work to address sector-specific concerns in the cotton, fruit and food processing sectors." [Comment: In separate meetings with local and foreign bank representatives (septel), more serious concerns were raised about the health of the GoA's fiscal situation.]

Bicentennial Agenda Still Undefined

¶8. (SBU) Ambassador Wayne noted media speculation that "Bicentennial" initiatives (in the run-up to the 2010 Revolution Bicentennial) the GoA might announce shortly could include measures to promote the return of flight capital, including via favorable tax treatment. President Fernandez de Kirchner was originally to have announced measures, including a social pact initiative -- Ref B --

and a long term infrastructure development program on May 25 (Revolution Day) and later on July 9 (Independence Day). Fernandez replied that the GoA's Bicentennial agenda is still being developed and debated internally and the timing of announcements has been delayed due to the GoA's focus on resolving the agricultural sector crisis. He said the government is working on a number of initiatives designed to help with consumer spending. (Press reports say the government is considering a higher minimum wage, higher pension payments and some other fiscal/tax moves designed to win public favor.)

¶9. (SBU) One of his Economy Ministry's current focuses, Fernandez said, is negotiating with Brazil further modifications to its bilateral auto pact (Ref C), which has contributed to a growing bilateral Argentine trade deficit. Argentina will seek more "balance," particularly in auto parts trade. Fernandez called the auto sector an important source of new industrial employment. Argentina will produce a record level of about 640,000 cars this year, and the GoA's goal is to double that number in five years time.

FDI Numbers

¶10. (SBU) Ambassador Timerman offered that Argentina had attracted some \$14 billion in new investment in the first half of 2008, of which 10-15% was of U.S. origin. (Comment: Timerman's statement is based on a new GoA report on \$13.6 billion in "announced" investments in the first half of 2008, i.e., investment projects mentioned in the press. 85% of this total was attributed to foreign firms and over half of the announced amount was concentrated in oil/gas exploration and development). O'Neill noted that Brazil had attracted a record \$34 billion in FDI in 2007. Institutional investors including sovereign wealth funds, he added, appear to be recalibrating their hemispheric portfolio investments, with Canada the number one destination.

¶11. (U) This cable was cleared by WHA A/S Shannon and Treasury DAS O'Neill.

WAYNE